



Benchmark Data Governance: Understanding the Costs and Risks

RIMES hosted its second Netherlands forum in **The Hague** in April 2013. The forum developed some important themes concerning the management of index data and benchmarks, raised at forums during 2012. This RIMES forum was entitled Benchmark Data Governance: Understanding the Costs and Risks.

SUMMARY

The forum also considered the conclusions of some important independent research conducted by Deloitte towards the end of 2012. A specialist team of Deloitte asset management consultants conducted the study, believing that index data and benchmarks within buy-side firms were under researched. The study considers the cost structure of data management within asset management firms with a focus on non-license fee costs.

The Deloitte study examines the entire data value chain within buy-side firms. The survey comprised in-depth, on-site engagements with 13 major asset management firms, managing about 5% of global AUM. The Deloitte research suggests that many buy-side firms now recognize the importance and value of financial data and are addressing data management as a corporate governance issue. Index data and benchmarks are a crucial component of this data management challenge as they are inherently complex and expensive to manage.

Furthermore, index data and benchmark management are now receiving the attention of the regulator. Initiatives, such as Solvency II, require firms to implement the right processes and procedures to monitor and control their data. As a result, data management is no longer a back-office issue but is becoming of strategic importance for all buy-side firms.

The Deloitte research also highlights how difficult it is to define total data management costs. In many firms there is little or no dedicated resource: typically, individuals spend only part of their time managing data. All findings were therefore reported in terms of full time equivalents (FTE) or percentages of FTE.

Attendees

Aegon Asset
Management

APG

Anthos Asset
Management

ING Investment
Management

KAS BANK

MN Services

Robeco Asset
Management

PGGM Investment
Management

Shell Asset
Management Company

KEY FINDINGS OF THE DELOITTE STUDY

- Firms are keen to rationalize data sources and the number of benchmarks – complex firms have an average of 7 FTE working on benchmark data management
- 42% of study participants in firms managing over \$200B in assets do not have regular processes and procedures to control data usage, so there is potentially unidentified scope for rationalization and cost reduction
- 53% of data processing activity involves data collection and data validation – many firms are therefore evaluating alternative processing models to reduce costs and improve efficiency.

42%

of study participants in firms managing over \$200B in assets do not have regular processes and procedures to control data usage

53%

of data processing activity involves data collection and data validation



"A big motivation for the rationalization of the data will be the quality rather than costs"

RIMES Hague forum participant

DATA GOVERNANCE AND DATA PROCESSING

The Deloitte study considers two families of data management activities:

- Data governance: data purchase, monitoring and usage control and compliance
- Data processing: data collection, validation, transformation, storage and distribution.

Managing an increasing volume of data increases costs and potentially operational risk. License costs are visible, relatively easy to understand and fixed in the short term. Most firms have a good grasp of license costs, as they are invoiced and can be audited. Data management costs are more complex and are often hidden within the firm. These include the teams, systems and processes that handle the data.

The Deloitte study suggests that many firms do not have effective control over their index data and benchmarks. Although most firms are strong at data processing, many are weak at data governance and controlling who is accessing what data and for which purposes. This problem is likely to increase: according to research by Investit, 72% of asset managers expect an increase in the volume of index data and benchmarks and 90% of asset managers expect an increase in customs and blends. So the challenge is twofold: growing volume and increasing complexity.

All firms wish to increase the visibility of index data and benchmark usage throughout the firm. Good governance is fundamental to best practice data management and cost control. Participants at The Hague forum confirmed a general desire to improve control:

"A generic need that we all have is process monitoring from source to target system."

It was agreed that good data governance was more akin to a journey than a destination as there are many functions involved and requirements are continually changing. It was decided that there was no packaged solution to meet the ongoing challenge of data governance:

"And there seems to be no market package that delivers such a solution."

Many firms source data from a combination of data providers and integrators. Firms have an average of seven staff acquiring, checking and validating data before its use in business applications. In practice, the challenge faced by participants is not whether to rationalize sources but how and when to do so.

Participants agreed that decommissioning indexes is part of the data governance challenge and it is often difficult to ascertain which indexes are necessary for the business:

“There’s also the problem that you have to stop benchmarks when the account has stopped - it’s something which many people forget about and they continue to deliver those indexes.”

The forum concluded that most data challenges related in some way to governance. There is universal keenness to develop standards and improve control. Many firms have embarked on data governance projects:

“What we are missing is the monitoring function of understanding the data that’s really being used. We’ve just started a program to help to get that transparency and so to make sure that we understand where data is being used.”



“We’re definitely too late at being aware of a new benchmark... it’s implemented without even knowing what the costs are.”

RIMES Hague forum participant

DATA MANAGEMENT - COSTS AND COMPLICATIONS

The Deloitte study reveals that most firms invest more in data processing than data governance:

- Firms spend twice as much resource collecting and onboarding new data sources than they spend validating them
- There are no industry standards for onboarding or administering indexes
- Many large firms have no formal data governance in place.

The Deloitte research shows that many firms have few or no formal governance processes in place. Participants agreed that governance should be improved in parallel with rationalization and centralization. Some participant firms already have projects underway to centralize data management and improve control:

“We are centralizing a lot of data management aspects.”

Although centralization can improve control, it was agreed that this should not be pursued if it impaired business agility. Moreover, cost reduction is not the only reason to centralize and streamline:

“A big motivation for rationalization of the data will be quality rather than costs.”

Many of the challenges surrounding index data and benchmarks stem from their unique characteristics. Benchmarks are often specified as part of a mandate so firms have little choice but to acquire more:

“If the client has got a mandate and they say, ‘I want you to use this benchmark’, all you have to do is say ‘yeah, go for it’”.

It can be difficult for an investment management firm to push back against a client request, although some firms are increasingly discussing specific data requirements with clients, to make them fully aware of the costs:

“So it’s a bit of a give and take. If you can push for it, you can push for it. Otherwise, you just go along with [the client] and have multiple benchmarks.”



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With margins under pressure, firms are also considering data costs when calculating the profitability of individual clients:

“They should also know the profitability per client.”

When clients request specific indexes, firms are increasingly assigning the direct costs of these to the client:

“If there is a specific benchmark, then it is assigned to a company.”

Participants decided that, while this was desirable and fair, it could be difficult to establish the total costs for a new index, including onboarding and ongoing management costs. If costs cannot be determined, they cannot be allocated:

“Most of the time it gets absorbed into the office costs side of it.”

A universal concern is that new benchmarks are often acquired at short notice, which makes it difficult to control costs:

“We’re definitely too late at being aware of a new benchmark...it’s implemented without even knowing what the costs are.”

In practice, the data has many different uses and users within the firm and across the industry. People who manage the data are not necessarily those who use it:

“But the problem is that a lot of the data is used in different departments so you do have one actual owner but is he going to check with the other departments whether they need it?”

Most firms acknowledge the need to invest in processes and procedures to develop a strategic operating platform. Participants discussed the inevitable overlap between legal and technical responsibilities, particularly regarding data distribution and storage. It was agreed that all technical projects had legal and operational implications.

CONCLUSION

The RIMES forum in The Hague shows a growing awareness of the importance of good data management and data governance in particular. Strong data governance is essential to ensure they align data acquisition with business needs while remaining compliant with license agreements.

Data governance is moving rapidly up the corporate agenda in the Dutch buy-side community and in asset management firms across Europe. In the post-financial crisis environment, all asset managers are being forced to navigate an increasingly complex regulatory framework and demonstrate strong management practices for key investor information.

Meeting regulatory requirements is costly and time consuming, so having a good handle on data management costs has never been more important. It was agreed that most firms are better at procuring and adding data than they are at monitoring its use and decommissioning redundant sources. Good data governance has become a necessity for all buy-side firms to ensure they align data acquisition and usage with business needs while remaining within the terms of license agreements. As volumes of index data and benchmarks increase, so do license costs

and the overheads of managing the data. With margins under pressure, firms need to invest in data governance to align costs with business objectives.

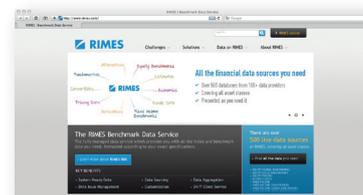
The forum suggests that many firms are in the process of rationalizing their data sources to achieve cost savings. Participants at The Hague forum recognized the importance of checking and validating index data and benchmarks, and also the potential downside of not doing so, reflected in increased operational, financial and reputational risk. The Deloitte research highlights that many firms are questioning whether in-house validation is really a good use of their time and capital.

RIMES continues to drive industry best practice for index and benchmark data management. Our fully managed services help to maximize data quality and optimize efficiency. We also provide firms with the tools to improve their data governance, and increase transparency, which is necessary for both regulatory reporting and effective cost management.

We would like to thank all participants for their enthusiastic contributions so far and look forward to engaging further with all of you in the future.



You can download more RIMES Forum synopses from our website www.rimes.com/news



About RIMES

Founded in 1996 specifically to serve the complex data needs of the buy-side, RIMES Technologies Corporation is a specialist provider of managed data services and one of the pioneering adopters of cloud-based technology to deliver highly customized financial data over the internet. Delivering world-class data, supported by first-class service remains a focus of RIMES today. RIMES is a unique global company, combining the best people with the most forward-thinking technology. The RIMES team of experts has unparalleled practical experience, gained at the heart of the industry, enabling them to deliver this service to over 200 institutions in 36 countries across the globe.

The RIMES Benchmark Data Service® (RIMES BDS®) provides data in a format that is ready for use in third party or proprietary client applications. All data supplied by RIMES is validated and thoroughly checked for accuracy. This frees clients to focus on their core business issues and enables them to become more agile and streamlined. RIMES BDS is used by a cross-section of buy-side firms. Customers include investment managers, pension funds and custodians. RIMES BDS manages their entire benchmarks data workflow and contains all the data they need to operate efficiently.

RIMES has earned several industry awards over the years: the Inside Reference Data Award for Best EDM Initiative, the Banking & Finance Award for Innovation and the Best Product Implementation at a Buy-Side Firm and Best Data Provider to the Buy-Side—the latter for the 6th consecutive year—at the Waters Buy-Side Technology Awards.



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